

**EMBARGOED UNTIL DELIVERY**

**Secretary Timothy F. Geithner  
Treasury Budget Written Testimony  
House of Representatives Committee on Appropriations  
Subcommittee on Financial Services and General Government  
Wednesday, March 16, 2011**

Chairwoman Emerson, Ranking Member Serrano, members of the Subcommittee, thank you for the opportunity to testify about the President's Fiscal Year (FY) 2012 Budget for the Department of the Treasury.

Congress has given Treasury a very broad mission, with responsibilities that touch many aspects of the lives of Americans.

Treasury is responsible for raising the resources necessary to fund critical Government functions, from national defense to protecting national parks. As the government's financial manager, we process payments on a daily basis of almost \$100 billion, including Social Security payments to 54 million Americans each month. We design and deliver tax credits to help support business investment and help families finance a college education. We design and enforce the financial sanctions necessary to prevent the spread of nuclear weapons and the finance of terrorism.

Treasury plays an important role in helping shape the President's overall economic policies. Our lead policy responsibilities include tax policy, the stability of the U.S. financial system (as Chair of the recently established Financial Stability Oversight Council), and overall international economic policy.

Unlike most Federal agencies, Treasury's annually appropriated budget is about people not programs, with most of the resources we seek from Congress directed to supporting the talented public servants charged with these important economic and financial responsibilities. Salaries and operating costs make up 96 percent of our budget, and most of the rest is for investments in technology they require to function.

Unlike most Federal agencies, we manage no spending programs, with the exception of the Community Development Financial Institutions (CDFIs) programs, which help catalyze private investment in communities across the country.

In the President's Budget for FY 2012, the Administration requested slightly over \$14 billion, \$13.3 billion of which is for the Internal Revenue Service (IRS). This request includes efficiency savings and program reductions across all Treasury bureaus, as well as a number of targeted investments to allow us to better address some of the most important economic challenges facing the United States.

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Let me begin by summarizing the core economic and financial priorities that shape this budget request.

### **Strengthening Economic Growth**

As we work to strengthen the economy and help get more Americans back to work, we are responsible for a range of initiatives designed to help support business investment.

As part of the Small Business Jobs Act of 2010, Treasury is implementing two new programs - the Small Business Lending Fund and the State Small Business Credit Initiative - designed to improve access to capital for small businesses.

We are working to encourage private sector investment in start-ups and small businesses operating in moderate and low-income communities through investments in the Community Development Financial Institutions Fund and the New Markets Tax Credit Program.

### **Repair and Reform of the Financial System**

Our programs to help strengthen and reform the financial system have made very substantial progress, but we still face a number of challenges ahead.

The financial recovery bank programs under the investment portion of the Troubled Assets Relief Program (TARP) are now estimated to provide a substantial positive return to the taxpayer. We are working to manage down the remaining TARP investments as quickly as possible. We are also seeking to reduce the ultimate cost of the Government's support for the housing market through the housing Government Sponsored Enterprises (GSEs).

We are helping shape the rules to implement the comprehensive reforms to the financial system passed by Congress last year, including stronger protections for consumers and tougher limits on risk-taking by banks.

We are working with Congress to reform the housing finance system, by winding down the GSEs, encouraging private capital to return to the market, and providing more targeted support for affordable housing.

### **Tax Reform**

The President has proposed to reform our corporate tax system to make America more competitive.

We look forward to working with members of Congress and the business community to design a comprehensive, revenue neutral reform of the corporate tax system that would lower tax rates, eliminate special tax breaks, and encourage investment in the United States.

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### **Promoting U.S. Economic and National Security Interests Globally**

Treasury plays a critical role in helping advance U.S. economic interests abroad and protecting against foreign threats to our economic and financial security. Our request sustains the Department's investment in counter-terrorism and financial crime programs. This includes funding for implementing targeted economic sanctions against foreign threats to the United States and stopping the flow of money to terrorist organizations and their support networks.

### **Improving the Efficiency of Government Services**

As we pursue these core priorities, we are working to deliver savings, program reductions, and improvements in the overall efficiency of government. As a result of these savings, our budget requests for FY 2012 in five accounts are below the FY 2010 enacted levels, and in three accounts are below the FY 2008 enacted levels.

#### *Tax payer services and tax enforcement*

The customer service and enforcement programs at the IRS provide one of the best values in the Federal Government. Every dollar invested in IRS yields nearly five dollars in increased revenue from non-compliant taxpayers. The targeted investments in this budget request are expected to produce more than \$1.3 billion in additional annual revenue once fully implemented in FY 2014.

In FY 2010, the IRS enforcement effort's brought in \$57.6 billion in additional tax revenues. This is a 53 percent increase in enforcement revenue since 2003 and a clear example that the investment in the IRS over the past few years is producing significant returns.

Over the last decade there have been nearly 4,500 changes to the tax law, providing IRS with a challenging and constantly changing business environment. Despite this fact, service levels have increased and each year the IRS has delivered a successful filing season.

The IRS continues to implement information programs and online applications to help taxpayers find and understand information. Use of the popular IRS web tool, "Where's My Refund.com" has nearly tripled since 2006 to 67 million users. This modernization has not only helped improve IRS' daily interactions with taxpayers, but has also provided the platform for significant productivity increases in IRS operations.

Today we receive nearly 100 million tax returns electronically each year. In the past these returns would have been opened, sorted, and transcribed manually. Last year, nearly 70 percent of individual tax returns were filed electronically compared to a mere ten percent 15 years ago. The efficiency savings have allowed us to consolidate ten submission processing sites into six and reduce the need for manual submission processing jobs. We will repurpose an additional processing site later this year.

Our IT modernization effort will decrease the time it takes to process and post taxpayer information from two weeks to one day, allowing IRS to issue faster refunds and customer service representatives to answer tax payer questions based on more up to date information.

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### *Treasury's Electronic Payments Initiatives*

Modernizing processes and reducing waste are key components not only of the IRS portion of Treasury's budget but also of our overall efforts to make sure the Department operates more efficiently and effectively.

Treasury now makes 82 percent of its payments electronically. We are taking action to further increase electronic payments. Effective May 2011, all newly enrolled federal beneficiaries will receive payments electronically. By March 2013, we plan to move all existing beneficiaries to electronic payment.

Productivity increases have already allowed the Financial Management Service (FMS) to repurpose the Austin, Texas payment center as a debt collection center. Debt collection efforts last year alone totaled more than \$4 billion, a 41 percent increase over FY 2000.

Automation of our debt financing functions has allowed the Bureau of Public Debt (BPD) to decrease staffing by more than 20 percent over the last five years. Additionally, we transitioned to an entirely electronic process for issuing payroll savings bonds earlier this year.

We are working to further automate debt financing.

In early 2012, we will no longer issue over-the-counter paper savings bonds. Instead, we will focus on supporting electronic means to issue bonds to individuals, reducing the cost of staffing, postage, paper forms, and processing fees.

Overall, these efforts to increase Treasury's paperless transactions with the public are expected to produce more than \$500 million in cost savings and efficiencies over the next five years. These savings, which include reductions in personnel and facilities costs, will create a more efficient Department and allow us to increase the quality of the services we provide.

### *Reducing Fraud and Improper Payments*

Treasury will also expand upon and maintain the Administration's VerifyPayment.gov portal to prevent ineligible recipients from receiving payments from the Federal government. Treasury will also continue to improve the management of the delinquent debt portfolio by implementing reforms that will increase collection of delinquent tax and non-tax debt, including child support, by more than \$5 billion over the next ten years.

### *Overall Improvements in Efficiency*

Treasury will cut the number of data centers we currently maintain by one-third by 2015, resulting in significant dollar and energy consumption savings. These overall savings build on substantial improvements over the last two years.

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Treasury's FY 2009, FY 2010 and FY 2011 Budgets collectively included a total of more than \$1 billion in savings and offsets. Treasury's FY 2012 Budget alone identifies nearly \$1 billion in savings, including \$336 million in direct cost savings and efficiencies and \$630 million in offsets primarily from assets seized as a result of violations of U.S. sanctions.

These savings allow us to finance some very important investments. Any substantial cut to the IRS budget will hurt revenue collection and service to taxpayers, resulting in unanswered phone calls and letters. Cuts to the remaining Treasury responsibilities would weaken our ability to support reforms that are critical to economic recovery and repair of the financial system. Cuts to the CDFI program would limit our ability to attract private investment to communities hit hardest by the economic crisis.

To carry out Treasury's responsibilities, we need to be able to retain and support the dedicated public servants that make up the career staff of Treasury and its Bureaus.

These are a very talented group of people, working extremely hard in the face of the most challenging economic and financial problems in many decades. They have played a vital role in helping restore economic growth and a measure of financial stability.

I look forward to working with you to ensure we continue to attract and retain a diverse, highly skilled workforce that delivers enhanced results for the American public.